

Congressman Scott Garrett (R-NJ), Chairman

July 20, 2011

Cut, Cap, and Balance Act Passes House

Yesterday, the House passed the Cut, Cap, and Balance bill by a vote of 234-190. Highlights of the legislation:

Title I—CUT: In FY 2012, the legislation puts in place discretionary and mandatory (non-veterans, non-Social Security, non-Medicare, non-interest) spending caps. The total savings from these caps compared to CBO's baseline is \$111 billion in FY 2012. Both the mandatory and discretionary spending limits are ceilings, *not floors*, for FY 2012 spending.

Title II—CAP: From FY 2013-2021, the legislation caps federal spending at the same levels (as a percentage of GDP) as the House-passed FY 2012 budget resolution. The cap would be just under 20% of GDP by the end of the ten-year window. This saves **\$5.8 trillion** over ten years. The bill enforces these spending limits with sequestration procedures. The sequestration would exempt payments for military personnel accounts, TRICARE for Life, Medicare, military retirement, Social Security, veterans spending, and net interest.

Fact of the Week: *It has been 812 days since Senate Democrats have approved a*

Title III—BALANCE: The legislation meets the President's request for a debt ceiling increase of \$2.4 trillion but only *if* a qualifying Balanced Budget Amendment is first passed by both Houses of Congress and sent to the states. A qualifying Balanced Budget Amendment would also have to include a super-majority requirement for Congress to increase taxes, and a total limit on federal spending as a percentage of GDP. H.J.Res. 1, H.J.Res. 56, and S.J.Res. 10 are all specifically listed in the bill as examples of constitutional amendments that achieve this.

Legislative Branch Appropriations Bill on Floor This Week

The FY Legislative Branch bill provides a spending level of \$3.3 billion, \$227 million (6.4%) *less* than last year. The House Appropriations Committee approved a 302(b) plan for the twelve appropriations bills providing a spending level of \$1.019 trillion—a **reduction of \$30.4 billion or 2.9% compared to last year**. The RSC budget resolution (see [here](#) for more information), would lead to a discretionary spending total of \$978 billion.

Discussions Continue on McConnell Debt Ceiling Plan

Last week, Senator McConnell released a debt ceiling plan to provide for a \$2.4 trillion increase in the debt ceiling contingent upon the President proposing spending cuts of \$2.5 trillion. The plan would allow three separate increases of the debt ceiling to occur automatically, at the President's request and with the required savings plan submitted, unless Congress disapproves the request (in which case the President could still veto the resolution of disapproval). The plan may be amended so that a new commission would be created with an expedited process for congressional consideration of the commission's deficit plan.

Gang of Six Releases Outline



Yesterday, the Gang of Six (Senators Chambliss, Coburn, Conrad, Durbin, Warner, and Crapo) introduced an outline of its deficit reduction proposal. According to the outline, the proposal would aim to cut the deficit by **\$500 billion** over ten years with: statutory spending caps on discretionary spending through 2015, a shift to a chained-CPI (a different, lower measure of inflation) for Social Security (with exemptions for lower-income individuals), a freeze on Congressional pay, requiring the unused federal property to be sold, and by repealing the CLASS Act. The outline also directs committees to report back legislation that would accomplish various goals. This includes:

- **Taxes:** The outline calls for eliminating the Alternative Minimum Tax (AMT) and lowering

tax rates, while getting rid of various credits and deductions. According to the [House Budget Committee](#), the plan would **increase tax revenues by \$2 trillion compared to the current policy baseline** (the baseline which assumes existing tax cuts do not expire).

- **Social Security:** The outline would provide for procedures for consideration of Social Security reform. The Senate Finance Committee would be required to either report out legislation making the program solvent forever, or a group of five Senators would be allowed to introduce a plan meeting this criteria. But all of this would be contingent on: 1) the other deficit savings being enacted into law first; and 2) the Social Security reform plan receiving 60 votes.
- **Medicare:** The outline calls for replacement of the Sustained Growth Rate (SGR) formula with a fully-paid for offset *and* \$85 billion of new savings over ten years.

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Obama Owns the Debt-Ceiling Fiasco

By Karl Rove

President Barack Obama and Congress face a mess if the federal government hits the debt ceiling Aug. 2. The Bipartisan Policy Center, a Washington think tank, projects that the government will receive \$172 billion in revenues between Aug. 3 and Aug. 31, but it is on the hook to spend \$306 billion, leaving a shortfall of \$134 billion.

On Tuesday, Mr. Obama told Scott Pelley of CBS News that "there may simply not be the money in the coffers" to issue Social Security, veterans and disability checks after Aug. 3.

Not so. The \$172 billion in revenues collected over the rest of the month can pay the \$29 billion interest charges on the national debt, Social Security benefits (\$49 billion), Medicaid and Medicare (\$50 billion), active duty military pay (\$2.9 billion), Department of Defense vendors (\$31.7 billion), IRS refunds (\$3.9 billion), and about a quarter of the \$12.8 billion in unemployment checks due that month.

There will, however, be no cash for highway construction, no checks for federal workers or retirees, no agriculture payments, no open national parks. Interest rates are also likely to rise if U.S. debt is downgraded, adding massively to the deficit and further damaging the economy. This would be a disaster with no political winners.

The president wants a \$2.4 trillion debt-ceiling increase to get him past next year's election—and the deal he's proposing is based on promised future cuts paired with substantial tax increases on households earning more than \$250,000 a year.

House Speaker John Boehner proposed matching a debt-ceiling hike with substantial spending cuts. The Congressional Budget Office estimates federal spending at \$46.1 trillion over the next 10 years, a dramatic escalation from projections before Mr. Obama took office. Mr. Boehner's modest proposal was to trim that back 5.2% over the decade, but the president balked.

Yet the \$4 trillion in deficit reduction that Mr. Obama talks about is shy on details. No one who's attended his frequent negotiating sessions knows what his proposal really is.

The president has made a bipartisan agreement even more difficult by declaring certain spending off-limits to cuts. Mr. Obama's "untouchable" list includes his \$1 trillion health-care reform, \$128 billion in unspent stimulus funds, education and training outlays, his \$53 billion high-speed rail proposal, spending on "green" jobs and student loans, and virtually any structural changes to entitlements except further squeezing payments to doctors, hospitals and health-care professionals.

Mr. Obama has offered no evidence since becoming president that he wants to restrain the upward trajectory of government spending. He does want higher taxes to pay for significantly higher federal spending. But he wants Republicans to deliver the tax increases, since Democrats couldn't pass them last year despite controlling both chambers of Congress.

Republicans have wisely declined. Demanding the GOP vote for immediate tax increases that would be offset by vague, future tax cuts conjures up images of Charlie Brown, Lucy and the football. The tax increases would be

real—the future tax rate cuts would be imaginary. And Mr. Obama has opposed any serious spending enforcement mechanisms, such as a balanced budget amendment or hard caps on spending.

His tone also hasn't helped achieve a comprehensive agreement. The president's two most recent press conferences, in which he accused the GOP of foot-dragging, convinced Republicans that he was interested in scoring political points and attracting independents, not facilitating a deal. Convening high-profile White House meetings without offering substantive concrete proposals and then having his aides leak madly (and inaccurately) to the press afterward further squandered trust.

There's still time for a deal, but it could come after the Aug. 2 deadline, and after much damage has been done to America's financial standing. Then the key political question will become who gets the blame. By then, it should be obvious that the man who promised to transcend petty politics and legislative gridlock made things worse.

Washington is dysfunctional. And to paraphrase the president's senior adviser, David Plouffe, Mr. Obama owns the dysfunction. The president has not only governed as a liberal—he's governed as an incompetent liberal, thereby reminding voters that electing a Republican Congress and president next year is the only way to change direction.